

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Northpointe Behavioral Healthcare Systems	County Dickinson
Audit Date 9/30/05	Opinion Date 2/3/06	Date Accountant Report Submitted to State: 3/30/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC			
Street Address 901 Ludington Street	City Escanaba	State MI	ZIP 49829
Accountant Signature 		Date 3/30/06	

NORTHPOINTE BEHAVIORAL HEALTHCARE SYSTEMS

FINANCIAL STATEMENTS

September 30, 2005

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ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Northpointe Behavioral Healthcare Systems
Kingsford, Michigan

We have audited the accompanying financial statements of Northpointe Behavioral Healthcare Systems, (Northpointe), as of and for the year ended September 30, 2005, as listed in the table of contents. These financial statements are the responsibility of Northpointe's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of Northpointe Behavioral Healthcare Systems, as of September 30, 2005, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2006, on our consideration of Northpointe's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion

Board of Directors
Northpointe Behavioral Healthcare Systems

on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 6 and 26 through 27, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United State of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Anderson, Tackman & Company P.C.

Certified Public Accountants

February 3, 2006

Management Discussion and Analysis

Northpointe Behavioral Healthcare System

Year Ended September 30, 2005

Northpointe Behavioral Healthcare Systems Authority (Northpointe) is a mental health authority located in Kingsford, Michigan that was created under PA258 of 1974, as amended, by Act 152 of 1996 and provides mental health services to residents of Dickinson, Iron, and Menominee Counties. Northpointe is in its third year of implementation of the provisions of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) with the enclosed financial statements. The primary objective of GASB 34 is to enhance the understandability and usefulness of these financial statements to Board members, citizens, and investors or creditors.

Provisions of GASB 34 required Northpointe to implement the new financial reporting model for the fiscal year ending September 30, 2003. Generally, the financial information will be reported in a two-year comparative format. We encourage readers to consider the information presented here in conjunction with the additional information found within the body of the audit.

Overview of the Basic Financial Statements

The Statement of Net Assets and Governmental Funds Balance Sheet and the Statement of Activities and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance report information about Northpointe as a whole and about its activities in a way that portrays the results of the current year's operations. Since Northpointe is being reported as a Special Purpose Government (Note A), the statements show both the Government Wide and Fund Level reporting methods. Therefore, the General Fund columns are reported on the modified accrual basis. Only those assets that are measurable and currently available are reported. Liabilities are recognized to the extent that they will be paid with current financial resources. The total Statement columns represent information about Northpointe using public-like business statements.

The Statement of Net Assets provides the basis for evaluating the capital structure of Northpointe and assessing its liquidity and financial flexibility.

The Statement of Activities presents information that shows how Northpointe's net assets changed during the year. In addition, it also measures the success of Northpointe over the past year and determines whether Northpointe has adequate revenues to provide for their operations.

Financial Analysis of Northpointe

Net assets –These statements present information reflecting Northpointe's assets, liabilities and net assets and is categorized into current and non-current assets and liabilities. For the purposes of the financial statements, current and non-current assets and liabilities are those assets and liabilities with immediate liquidity or which are collectable or becoming due within 12 months of the statement date.

Management Discussion and Analysis (continued)

Net assets as of the year ended September 30,

	2004	2005
Current Assets	\$3,657,459	\$3,985,299
Capital Assets	1,156,104	1,637,934
Restricted-current assets	<u>305,318</u>	<u>335,846</u>
Total Assets	<u>\$5,118,881</u>	<u>\$5,959,079</u>
Current Liabilities	\$2,762,953	\$2,857,566
Long-Term Liabilities	<u>819,945</u>	<u>1,387,773</u>
Total Liabilities	<u>\$3,582,898</u>	<u>\$4,245,339</u>
Net Assets		
Investment in capital assets,		
Net of related debt	543,847	375,084
Restricted		
Unrestricted	<u>992,136</u>	<u>1,338,656</u>
Total Net Assets	<u>\$1,535,983</u>	<u>\$1,713,740</u>

Statement of Revenues, Expenditures and Changes in Fund Balance

	2004	2005
REVENUE		
Federal Block Grants	\$ 207,528	\$ 170,156
State General Fund	3,032,241	2,919,338
State/NorthCare Medicaid	9,983,383	10,444,765
Local	275,908	248,351
Charges for Services	650,845	763,881
Other Revenue	<u>51,856</u>	<u>122,831</u>
Total Revenue	<u>\$14,201,761</u>	<u>\$14,669,322</u>
EXPENDITURES		
Current:		
Salaries & Related Expense	\$8,422,918	\$8,514,896
Operational	2,503,576	2,515,576
Contractual	3,283,334	3,415,891
Debt Service:		
Interest	<u>34,388</u>	<u>45,202</u>
Total Expenditures	\$14,044,216	\$14,491,565
Change in net assets	157,545	177,757
Beginning of the Year	<u>1,378,438</u>	<u>1,535,983</u>
End of the Year	<u>\$ 1,535,983</u>	<u>\$ 1,713,740</u>

Analysis of Overall Financial Position

Balance Sheet – The Northpointe balance sheet lists several liability account items that require explanation as follows:

- Medicaid savings Fiscal Year 2005, reported as a liability of \$580,947, is Medicaid funding that was not spent in Fiscal Year 2005 and is payable to NorthCare; Northpointe expects approximately \$116,000 to be returned to Northpointe to be available for use in FY 06.
- Carryforward of Fiscal Year 2005 reported as deferred revenue of \$141,164 is General Fund not spent and available in Fiscal Year 2006.

Revenue – Northpointe has a high concentration of revenue from public funds with Medicaid consisting of approximately 71% and State General Fund approximately 20% of total budgeted revenue. Northpointe has formed a regional alliance with the five other U.P. Community Mental Health Boards (NorthCare) to continue to secure the Medicaid funding for the region. This alliance will also allow Northpointe to share expertise and reduce operational costs. Northpointe's full continuum of services and knowledge of the local consumers and the ability to meet their needs are all factors in our ability to maintain a contractual relationship with the State of Michigan.

Expenditures: - Northpointe continuously monitors expenditures in an effort to reduce costs and improve services. Northpointe regularly conducts salary and benefit surveys to compare against peers and ensure competitiveness and prudence with those peers. Northpointe also has a successful procurement policy in place, which ensures that major services and products are purchased at the best pricing available.

Budget Analysis

Northpointe Fiscal Year 04-05 actual revenue and expenditures differed from the original budget by approximately 1%. The Northpointe finance committee and the full Board review the balance sheet and income statement each month to ensure that both revenue and expenditure targets are within acceptable variances.

Long Term Debt

At year-end, Northpointe had \$1,262,850 of outstanding notes payable and capital leases - an increase of approximately \$650,593 over the prior year. This increase in debt results primarily from the construction and ownership of a new office facility in Menominee County. More detailed information about Northpointe's long-term liabilities is presented in Note L to the financial statements.

Management Discussion and Analysis (continued)

Capital Assets

Northpointe's retains capital assets in the amount of \$1,637,934. The major addition was the construction of a new office facility in Menominee. No capital asset disposals occurred in 2005. A summary of the changes in capital assets for the year ended September 30, 2005 is contained in Note K to the financial statements.

Economic Factors Affecting Northpointe's Future

There are several factors that could affect Northpointe in the future.

- The economy of the State of Michigan continues to struggle and may affect Northpointe in future years.
- The Federal Government is beginning to look at the Medicaid system in an effort to reduce Medicaid expenditures.

Contacting Northpointe's Financial Management

This financial report is designed to provide citizens, taxpayers, consumers, staff, Board members, creditors and other interested parties with a general overview of Northpointe's finances and to demonstrate Northpointe's accountability for the revenues received. If you have any questions about this report or need any additional information, please contact Northpointe's Finance Director at 715 Pyle Dr. Kingsford, Michigan 49802.

NORTHPOINTE BEHAVIORAL HEALTHCARE SYSTEMS

COMBINED GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET

September 30, 2005

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
ASSETS:			
Current assets:			
Cash:			
Unrestricted	\$ 3,802,516	\$ -	\$ 3,802,516
Restricted	335,846	-	335,846
Receivables	89,481	-	89,481
Prepaid expenses	93,302	-	93,302
Total current assets	<u>4,321,145</u>	<u>-</u>	<u>4,321,145</u>
Noncurrent assets:			
Land	-	44,700	44,700
Other capital assets, net of accumulated depreciation	<u>-</u>	<u>1,593,234</u>	<u>1,593,234</u>
Total noncurrent assets	<u>-</u>	<u>1,637,934</u>	<u>1,637,934</u>
TOTAL ASSETS	<u>\$ 4,321,145</u>	<u>\$ 1,637,934</u>	<u>\$ 5,959,079</u>
LIABILITIES:			
Current liabilities:			
Accounts payable	\$ 562,251	\$ -	\$ 562,251
Due to state	200,605	-	200,605
Due to Northcare	1,404,344	-	1,404,344
Accrued payroll and fringes	289,991	-	289,991
Deferred revenue	194,712	-	194,712
Accrued sick and vacation	82,645	-	82,645
Notes and capital leases payable	<u>-</u>	<u>123,018</u>	<u>123,018</u>
Total current liabilities	<u>2,734,548</u>	<u>123,018</u>	<u>2,857,566</u>
Noncurrent liabilities:			
Accrued sick and vacation	247,941	-	247,941
Notes and capital leases payable	<u>-</u>	<u>1,139,832</u>	<u>1,139,832</u>
Total noncurrent liabilities	<u>247,941</u>	<u>1,139,832</u>	<u>1,387,773</u>
TOTAL LIABILITIES	<u>2,982,489</u>	<u>1,262,850</u>	<u>4,245,339</u>
FUND BALANCES/NET ASSETS:			
Fund balances:			
Unreserved	<u>1,338,656</u>	<u>(1,338,656)</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 4,321,145</u>		
NET ASSETS:			
Invested in capital assets, net of related debt		375,084	375,084
Unrestricted - Act 423 funds		<u>1,338,656</u>	<u>1,338,656</u>
TOTAL NET ASSETS		<u>\$ 1,713,740</u>	<u>\$ 1,713,740</u>

See accompanying notes to financial statements.

NORTHPOINTE BEHAVIORAL HEALTHCARE SYSTEMS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
SHEET TO THE STATEMENT OF NET ASSETS

September 30, 2005

Total fund balances for governmental fund \$ 1,338,656

Total net assets reported for governmental activities
in the Statement of Net Assets is different because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported in
the fund. Those assets consist of:

Land	\$ 44,700	
Land improvements	5,092	
Building	1,429,227	
Equipment	867,655	
Vehicles	985,907	
Less: accumulated depreciation	<u>(1,694,647)</u>	1,637,934

Long-term debt is not due and payable in
the current period and accordingly is not
reported as a fund liability. All liabilities,
both current and long-term, are reported in the
Statement of Net Assets.

Notes Payable, current portion	\$ 123,018	
Notes Payable, noncurrent portion	<u>1,139,832</u>	\$ (1,262,850)

Total net assets \$ 1,713,740

See accompanying notes to financial statements.

NORTHPOINTE BEHAVIORAL HEALTHCARE SYSTEMS

COMBINED GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
 STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF REVENUES
 EXPENDITURES, AND CHANGES IN FUND BALANCE

For the year ended September 30, 2005

	General Fund	Adjustments	Statement of Net Assets
REVENUES:			
Federal sources	\$ 170,156	\$ -	\$ 170,156
State sources	2,919,338	-	2,919,338
Medicaid	10,444,765	-	10,444,765
Medicare	101,681	-	101,681
Local	248,351	-	248,351
Charges for services	662,200	-	662,200
Other revenues	122,831	-	122,831
Proceeds from borrowing	768,050	(768,050)	-
	<u>15,437,372</u>	<u>(768,050)</u>	<u>14,669,322</u>
TOTAL REVENUE			
EXPENDITURES:			
Current:			
Salaries and related expenses	8,514,896	-	8,514,896
Board related expenses	27,956	-	27,956
Office supplies and postage	50,284	-	50,284
Operating and program supplies	296,408	-	296,408
Client medical	59,797	-	59,797
Pharmacy	39,581	-	39,581
Dental	7,096	-	7,096
MIS support	202,173	-	202,173
Staff medical	16,461	-	16,461
Local match MRS Grant	11,421	-	11,421
Contract employee services	229,759	-	229,759
Legal, professional, accounting	24,515	-	24,515
The Source	6,184	-	6,184
Local in-patient	499,830	-	499,830
County in-patient	30,323	-	30,323
State in-patient	182,748	-	182,748
Home services	1,542,192	-	1,542,192
Community mental health	1,299	-	1,299
Pathways	37,671	-	37,671
Trico	472,365	-	472,365
Goodwill	310,624	-	310,624
DICSA	61,992	-	61,992
Crisis services	22,573	-	22,573
Respite	103,156	-	103,156
Telephone	118,480	-	118,480
Utilities	123,183	-	123,183
Staff development and travel	136,130	-	136,130
Vehicle operations/maintenance	186,878	-	186,878
Advertising	31,512	-	31,512
Recruitment	25,033	-	25,033
Liability insurance	151,535	-	151,535
Repairs and maintenance	183,711	-	183,711
Rent-facilities and equipment	328,633	-	328,633
Dues and publications	-	-	-
Pathways PHP	192,326	-	192,326
Miscellaneous	35,699	-	35,699
Capital outlay	663,769	(663,769)	-
Depreciation	-	181,939	181,939

See accompanying notes to financial statements

NORTHPOINTE BEHAVIORAL HEALTHCARE SYSTEMS

COMBINED GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF REVENUES
EXPENDITURES, AND CHANGES IN FUND BALANCE

For the year ended September 30, 2005

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
Debt Service:			
Principal	\$ 117,457	\$ (117,457)	\$ -
Interest	<u>45,202</u>	<u>-</u>	<u>45,202</u>
TOTAL EXPENDITURES	<u>15,090,852</u>	<u>(599,287)</u>	<u>14,491,565</u>
Excess of revenues over expenditures	346,520	(346,520)	-
Change in net assets	-	177,757	177,757
Net assets, beginning of year	<u>992,136</u>	<u>543,847</u>	<u>1,535,983</u>
NET ASSETS, END OF YEAR	<u>\$ 1,338,656</u>	<u>\$ 375,084</u>	<u>\$ 1,713,740</u>

See accompanying notes to financial statements.

NORTHPOINTE BEHAVIORAL HEALTHCARE SYSTEMS

RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE TO THE STATEMENT OF ACTIVITIES

September 30, 2005

Net changes in fund balance \$ 346,520

The change in net assets reported for the Statement
of Activities is different because:

Governmental funds report capital outlays as
expenditures. In the Statement of Activities,
however, the cost of those assets is capitalized
and allocated over the estimated useful lives and
reported as depreciation expense. The effect
of this difference is as follows:

Capital outlay	663,769
Depreciation expense	(181,939)

Proceeds of long-term borrowing is shown as
revenue in the governmental fund but is recorded
as a liability in the Statement of Net Assets. (768,050)

Repayment of debt principal is an expenditure
in the governmental fund but reduces the debt
liability in the Statement of Net Assets

	<u>117,457</u>
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Change in net assets	<u>\$ 177,757</u>
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See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Northpointe Behavioral Healthcare Systems (Northpointe) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local units of government through its pronouncements. The more significant policies established in GAAP and used by Northpointe are discussed below:

(1) Background - Northpointe Behavioral Healthcare Services Board was originally formed as a merger of the Menominee County Community Mental Health Center and the Dickinson-Iron Mental Health Services Board. This merger was provided for under the County Community Mental Health Program Act of 1986 and the Urban Cooperation Act of 1967, as amended, and was effective January 1, 1995. In accordance with the agreement each center transferred all existing assets and contracts to the new authority. Northpointe Behavioral Healthcare Systems ("Northpointe" or "Board") was reorganized as an authority under PA258 of 1974, as amended by Act 152 of 1996, effective January 6, 1998. The authority is covered under Section 205 2(e) of the Mental Health Code.

Northpointe's Board of Directors are appointed by the respective county boards of commissioners, and consist of five members each from Menominee County and Dickinson County and two members from Iron County. Northpointe was formed to provide a full range of mental health services for residents located within the three counties as required and permitted by the Michigan Mental Health Code.

(2) Reporting Entity - Because Northpointe is a separate entity under PA 258 of 1974, as amended, and is governed by a board composed of members from each of the three counties it has been defined as a jointly governed organization by GASB Statement 14. No county board has responsibility over Northpointe nor does any county board have an on-going financial interest in Northpointe as defined by GASB Statement 14. Northpointe is not a component unit of any of the three counties it serves.

The accounting policies of Northpointe conform to accounting principles generally accepted in the United States as applicable to mental health centers. The following is a summary of the more significant policies:

Basic Financial Statements-Combined Government-wide and Fund Financial Statements-Statement of Net Assets and Governmental Funds Balance Sheet - In the Combined Government-wide and Fund Financial Statements-Statement of Net Assets and Governmental Fund Balance Sheet, the General Fund column is presented on the fund financial statement basis. The "Adjustments" column represents the items needed to convert the financial statements to the government-wide

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

reporting basis. The Statement of Net Assets column represents amounts that normally would appear in the government-wide statements. Northpointe's net assets are reported as either invested in capital assets, net of related debt, restricted or unrestricted.

Basic Financial Statements-Combined Government-wide and Fund Financial Statements-Statement of Activities and Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance - In the Combined Government-wide Fund Financial Statement-Statement of Activities and Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance, the General Fund column is presented on the fund financial statement basis. The "Adjustments" column represents the items needed to convert the financial statements to the government-wide reporting basis. The Statement of Activities column represents amounts that normally would appear in the government-wide statements. Northpointe's change in net assets for the current year is presented in the adjustments column and the Statement of Activities column. This statement also presents the beginning and end of year net assets.

Governmental Funds - The focus of the governmental funds measurement is upon the determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of Northpointe:

General Fund - The General Fund is the primary operating fund and, accordingly, it is used to account for all financial resources except those accounted for in another fund.

(3) Basis of Accounting - The basis of accounting refers to the point at which revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Governmental activities in government-wide financial statements are presented on the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; that is, when both measurable and available. "Available" means collectible within the current period or within sixty days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred, except for principal and interest on general obligation debt, if any, is recognized when due.

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

As allowed by GASB Statement No. 34, Northpointe's financial statements are presented as a Special Purpose Government. Northpointe is a government authority that provides a specific activity to the public in the form of mental health services. Since Northpointe's financial statements are presented as a Special Purpose Government, the basic financial statements were prepared by combining the fund financial statements with the government-wide statements. This combination is presented in a balance sheet and income statement format, using an "Adjustment" column for the conversion from the fund basis to the government-wide basis.

(4) Financial Statement Amounts:

Cash and Cash Equivalents - Northpointe has defined cash and cash equivalents to include cash on hand and demand deposits.

Capital Assets - Capital assets purchased or acquired with an original cost of \$5,000 or more are capitalized and reported at historical cost or estimated historical cost. Contributed assets, if any, are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis. General capital assets are those that result from expenditures in the governmental funds. These assets are reported in the Statement of Net Assets column of the Statement of Net Assets and Governmental Funds Balance Sheet.

The expenditures for these assets are reported as Capital Outlay Expenditures in the General Fund column of the Statement of Activities and Governmental Fund Statement of Revenues, Expenditures, and changes in Fund Balance. These expenditures are then deducted in the "Adjustments" column to convert the statement to the government-wide basis.

Accrued Liabilities and Long-Term Obligations - Payables and accrued liabilities that will be paid from governmental funds are reported in the General Fund Column of the Statement of Net Assets and Governmental Funds Balance Sheet regardless of whether they will be liquidated with current financial resources. The non-current portion of compensated absences, that will be paid from governmental funds are reported as a liability in this same statement only to the extent that they will be paid with current, expendable, available financial resources (generally, within sixty days of year-end).

Deferred Revenue - Northpointe reports deferred revenue when revenue does not meet both the "measurable" and "available" criteria for recognition in the current period, or when resources are received by Northpoint before it has a legal claim to them, such as when grant money is received prior to the in-

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

currence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when Northpointe has legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted only when there are limitations imposed on their use through enabling legislation or through external restrictions imposed by creditors, grantors, laws, or other government regulation. In addition, Northpointe will first use restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Use of Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B - CASH

The cash balance as reported in the Statement of Net Assets and Governmental Funds Balance Sheet is presented below:

	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Cash in bank	\$ 335,846	\$ 3,800,315	\$ 4,136,161
Cash on hand	-	2,201	2,201
	<u>\$ 335,846</u>	<u>\$ 3,802,516</u>	<u>\$ 4,138,362</u>

Statutory Authority - Act 196, PA 1997, authorized Northpointe to deposit and invest in:

1. Bonds, securities, and other direct obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution eligible to be a depository of funds belonging to the State of Michigan under a law or rule of this state or the United States.
3. Commercial paper rated at time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
4. Repurchase agreements consisting of instruments issued by the United States or an agency or instrumentality of the United States.
5. Bankers' acceptance of United States banks.

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE B - CASH (continued)

6. Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
7. Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

All deposits are carried at cost, which approximates market value, and are in accordance with statutory authority.

Attorney General's Opinion No. 6168 states that Public Funds may not be deposited in financial institutions located in states other than Michigan.

Custodial Credit Risk - As of September 30, 2005, the carrying amount of Northpointe's deposits was \$4,136,161 and the bank balance was \$4,370,304. Of the bank balance \$108,185 was covered by federal depository insurance and \$4,262,119 was uninsured and uncollateralized.

Interest Rate Risk - Northpointe's investment policy follows state law with respect to investment maturity. At present none of Northpointe's deposits carried maturity dates, consequently there is no significant interest rate risk.

NOTE C - RESTRICTED CASH

As reported on the Statement of Net Assets and Governmental Funds Balance Sheet, Northpointe has restricted cash of \$335,846. This includes \$330,587 for accumulated sick and vacation pay and \$5,259 for the Internal Revenue Code Section 125 medical reimbursement plan.

NOTE D - RECEIVABLES

Detail of the receivables at September 30, 2005 is as follows:

Federal grants	\$ 29,777
Medicaid	27,714
Patient fees	16,940
Miscellaneous	<u>15,050</u>
TOTAL RECEIVABLES	<u>\$ 89,481</u>

An allowance for doubtful accounts has not been established since all amounts are fully collectible. In the event that an amount becomes uncollectible, the receivable and the corresponding revenue are eliminated.

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE E - PENSION PLANS

Plan Descriptions - For the year ended September 30, 2005, Northpointe had two pension plans with five divisions. The first plan is a defined contribution money purchase pension plan administered by the ICMA Retirement Corporation. The first division is for paraprofessionals, which consists of hourly employees. This division has a three percent employer and zero employee contribution with a three-year vesting schedule. The second division is for former Menominee County mental health clinic administrative employees and Northpointe administrative employees hired after the January 1, 1995 merger date. This division has a seven percent employer and zero percent employee contribution with a five-year vesting schedule. Both divisions have minimum service requirements of twelve months of credited service and eighteen years of age. This plan's five-year vesting schedule allows twenty percent vesting each year.

The second plan maintained by Northpointe is through the Michigan Municipal Employee's Retirement System ("System" or "MERS"), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for Michigan municipal employees. MERS issues a publicly available financial report that includes the financial statements and required supplementary information for the entire System. The report may be obtained by writing to MERS, 1134 Municipal Way, Lansing, Michigan 48917.

Defined Benefit Plan - This plan is a defined benefit plan that covers three groups of employees and the CEO under separate provisions. The first group is administrative employees from the Dickinson-Iron Community Mental Health Services Board (Board) prior to the merger.

The employees who retire at or after the age of 60 with ten years of credited service are entitled to an annual retirement benefit, payable monthly for life, in the amount equal to the sum of 2.25 percent times the member's five-year final average compensation, with a maximum benefit of 80 percent of final average compensation. The plan also provides death and disability benefits.

Employees contribute two percent of their salary to the plan with the Board making up the rest of the contribution, which is actuarially determined. The employee's portion is fully vested immediately; the Board's portion is vested after ten years of credited service. The Board's portion is immediately vested, however, if the employee dies or becomes disabled while on the job.

The second group of employees covered under the MERS program is professional employees. This group has no employee contribution requirement. The Board's contribution vests to the employee after six years of credited service and the annual retirement benefit multiplier is two percent with a maximum of 80 percent of final average compensation. The CEO is also covered under the MERS defined benefit program. This plan has no employee contribution requirement and the Board's contribution vests after six years of credited service. The retirement benefit

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE E - PENSION PLANS (continued)

multiplier is two percent with a maximum of 80 percent of final compensation. This program allows retirement at age 55 with 15 or more years of services with no reduction of benefits.

Funding Status and Progress - The amount shown below as the "actuarial accrued liability" represents the difference between the present value of all future benefits and the present value of future normal costs. The overfunded actuarial liability, which represents the actuarial accrued liability less assets accumulated, is then amortized over a period of thirty years. The measure over time is intended to help users assess the funding status of the System on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and allow for comparisons among public employee retirement plans.

Under the entry age normal cost method, the total actuarially-determined contribution requirement is the sum of the normal cost and the payment required to amortize the unfunded accrued liability less the accelerated funding credits, if any.

At December 31, 2004, the over funded actuarial accrued liability was \$462,445, determined as follows:

Actuarial Accrued Liability:	
Retirees and beneficiaries currently receiving benefits	\$1,217,737
Terminated employees not yet receiving benefits	744,270
Non-vested terminated employees	43,235
Current employees:	
Accumulated employee contributions including allocated investment income	505,638
Employer financed	<u>3,209,063</u>
Total Actuarial Accrued Liability	\$5,719,943
Net assets available for benefits at actuarial value (market value is \$6,034,748)	<u>6,182,388</u>
UNFUNDED (OVERFUNDED) ACTUARIAL ACCRUED LIABILITY	<u>\$ (462,445)</u>

Actuarially Determined Contributions Required and Contributions Made - Periodic employee contributions are determined on an actuarial basis using the entry age normal cost method. Normal cost is funded on a current basis whereas over funded actuarial accrued liability is funded over a thirty-year period. Periodic contributions for both normal cost and the amortization of the over funded actuarial accrued liability are based on the level percentage of payroll method. The actuarial assumptions used include (a) a rate of return on the investment of 8% per year for present and future assets, (b) projected salary increases of 4.5% per year, compounded annually, attributable to inflation, and (c) additional projected salary increases ranging from 0% to 8.4% based upon seniority and merit.

The employer contribution rate has been determined based on the entry age normal cost method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE E - PENSION PLAN (continued)

level annual percentage of payroll required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry-age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit. The following table provides a schedule of contribution amounts and percentages of recent years.

<u>Valuation Date</u> <u>December 31</u>	<u>Annual</u> <u>Required</u> <u>Contribution</u>	<u>Percent</u> <u>Contributed</u>
2002	\$ -	100%
2003	10,590	100%
2004	63,890	100%

Analysis of Funding Progress

	(a)	(b)	(b-a)		(c)	((b-a)/c)
<u>Actuarial</u> <u>Valuation</u> <u>December 31</u>	<u>Actuarial</u> <u>Value</u> <u>of Assets</u>	<u>Entry Age</u> <u>Accrued</u> <u>Liability</u>	<u>Overfunded</u> <u>Accrued</u> <u>Liability</u> <u>(OAL)</u>	<u>(a/b)</u> <u>Funded</u> <u>Ratio</u>	<u>Annual</u> <u>Covered</u> <u>Payroll</u>	<u>UAL as a</u> <u>Percentage</u> <u>of Covered</u> <u>Payroll</u>
2002	\$5,508,258	\$4,396,919	(\$1,111,337)	125%	\$2,470,820	0%
2003	5,834,613	5,054,754	(779,859)	115%	2,499,582	0%
2004	6,182,388	5,719,943	(462,445)	108%	2,721,781	0%

NOTE F - VESTED EMPLOYEE BENEFITS

All full and part-time employees of Northpointe are entitled to accrue vacation and sick pay benefits. Employees begin to accrue benefits the first day of the month following two full calendar months of employment. Accrued but unused vacation leave may accumulate to a maximum of 200 hours. All vacation earned in excess of 200 hours is forfeited on September 30th. Employees are paid at the rate of one hour for every two hours forfeited, paid at the first full payroll of the new year. Sick leave benefits accrue up to a limit of 120 days for all employees. Upon termination of employment, employees are entitled to receive 100 percent of their accrued vacation leave if the employee gives a minimum of two weeks notice. Sick leave would be paid out to any employee upon termination at a rate of 50 percent of their accrued leave over 60 days up to 120 days at their current rate of pay. As of September 30, 2005, the Board has restricted cash in the amount of \$330,587 to fund future vacation and sick pay benefits.

NOTE G - DUE TO STATE

Due to State at September 30, 2005, is as follows:

In-patient facilities	\$ 41,413
Cash advances	<u>159,192</u>
TOTAL	<u>\$ 200,605</u>

NORTHPOINTE BEHAVIORAL HEALTHCARE SYSTEMS

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE H - LEASE COMMITMENTS

Northpointe has entered into a number of non-cancelable operating leases for facilities with varying terms and conditions. Required minimum payments for the fiscal years ending September 30 are as follows:

<u>Fiscal Year Ended</u>	<u>Amount</u>
2006	\$ 254,070
2007	189,600
2008	148,053
2009	116,781
2010	54,237
2011-2015	<u>55,865</u>
TOTAL	<u>\$ 818,606</u>

NOTE I - DEFERRED REVENUE

Deferred revenue at September 30, 2005 is as follows:

Prevention	\$ 52,780
SSI Clients	768
Carryforward of FY 2005 General Fund Revenue	<u>141,164</u>
TOTAL	<u>\$ 194,712</u>

NOTE J - DUE TO NORTHCARE

The \$1,404,344 listed as due to Northcare as of September 30, 2005, represents Medicaid funding not spent in fiscal year 2004 and is available for expenditure in fiscal year 2005.

NOTE K - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2005 was as follows:

	<u>Balance at 10/01/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 9/30/05</u>
Non-depreciated capital assets:				
Land	\$ 36,700	\$ 8,000	\$ -	\$ 44,700
Other Capital Assets:				
Land improvements	5,092	-	-	5,092
Buildings	647,799	781,428	-	1,429,227
Construction in progress	246,000	-	246,000	-
Equipment	826,514	41,141	-	867,655
Vehicles	<u>906,707</u>	<u>79,200</u>	<u>-</u>	<u>985,907</u>
TOTAL CAPITAL ASSETS	<u>2,668,812</u>	<u>909,769</u>	<u>246,000</u>	<u>3,332,581</u>
Accumulated depreciation:				
Land improvements	85	509	-	594
Buildings	179,514	46,711	-	226,225
Equipment	566,653	66,533	-	633,186
Vehicles	<u>766,456</u>	<u>68,186</u>	<u>-</u>	<u>834,642</u>
Subtotal	<u>1,512,708</u>	<u>181,939</u>	<u>-</u>	<u>1,694,647</u>
NET CAPITAL ASSETS	<u>\$ 1,156,104</u>	<u>\$ 727,830</u>	<u>\$ 246,000</u>	<u>\$ 1,637,934</u>

NORTHPOINTE BEHAVIORAL HEALTHCARE SYSTEMS

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE L - LONG-TERM DEBT

Long-term debt represents the following as of September 30, 2005:

Description	Carrying Amount	Amount due in one year
Notes Payable		
Note payable, secured by real estate, due in monthly installments of \$1,881, through June 2007, including interest at 5.05%.	\$ 270,204	\$ 9,136
Note payable, secured by real estate, due in monthly installments of \$3,282, through December 2009, including interest at 3%.	<u>676,098</u>	<u>19,366</u>
TOTAL NOTES PAYABLE	<u>946,302</u>	<u>28,502</u>
Capital Lease Obligations		
Capital lease payable, secured by a vehicle, due in monthly installments of \$342, through September 2007, including interest at 4.93%	7,781	3,801
Capital lease payable, secured by a vehicle, due in monthly installments of \$263, through September 2007, including interest at 4.93%	5,993	2,929
Capital lease payable, secured by a vehicle, due in monthly installments of \$263, through September 2007, including interest at 4.93%	5,993	2,929
Capital lease payable, secured by a vehicle, payable in monthly installments of \$571, through June 2009, including interest at 6.25%	22,835	5,577
Capital lease payable, secured by a vehicle, payable in monthly installments of \$359, through December 2008, including interest at 5.29%	12,826	3,715
Capital lease payable, secured by a vehicle, payable in monthly installments of \$657, through December 2005, including interest at 7.9%	2,003	2,003
Capital lease payable, secured by a vehicle, payable in monthly installments of \$568, through December 2005, including interest at 7.75%	1,726	1,726
Capital lease payable, secured by a vehicle, payable in monthly installments of \$277, through October 2008, including interest at 3.9%	9,648	3,003
Capital lease payable, secured by a vehicle, payable in monthly installments of \$277, through October 2008, including interest at 3.9%	9,648	3,003
Capital lease payable, secured by a vehicle, payable in monthly installments of \$277, through October 2008, including interest at 3.9%	9,648	3,003
Capital lease payable, secured by a vehicle, payable in monthly installments of \$277, through October 2008, including interest at 3.9%	9,648	3,003

NORTHPOINTE BEHAVIORAL HEALTHCARE SYSTEMS

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE L - LONG-TERM DEBT (continued)

<u>Description</u>	<u>Carrying Amount</u>	<u>Amount due in one year</u>
Capital lease payable, secured by a vehicle, payable in monthly installments of \$710, through July 2009, including interest at 6.25%	\$ 28,998	\$ 6,909
Capital lease payable, secured by a vehicle, payable in monthly installments of \$306, through December 2008, including interest at 5.00%	10,964	3,196
Capital lease payable, secured by a vehicle, payable in monthly installments of \$242, through December 2008, including interest at 5.00%	8,665	2,526
Capital lease payable, secured by a vehicle, payable in monthly installments of \$321, through October 2009, including interest at 6.85%	13,447	3,030
Capital lease payable, secured by equipment, payable in monthly installments of \$177, through August 2007, including interest at 11.55%	3,631	1,795
Capital lease payable, secured by equipment, payable in monthly installments of \$2,005, through May 2010, including interest at 4.97%	100,018	19,528
Capital lease payable, secured by equipment, payable in monthly installments of \$2,085, through December 2007, including interest at 5.12%	<u>53,076</u>	<u>22,840</u>
TOTAL CAPITAL LEASE OBLIGATION	<u>316,548</u>	<u>94,516</u>
TOTAL LONG-TERM DEBT AND CAPITAL LEASE OBLIGATION	<u>\$1,262,850</u>	<u>\$ 123,018</u>

Future minimum payments of the notes payable and capital lease obligations are as follows:

<u>Fiscal Year Ended September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 123,018	\$ 47,751	\$ 170,769
2007	376,479	38,560	415,039
2008	89,381	23,726	113,107
2009	63,199	20,083	83,282
2010	<u>610,773</u>	<u>4,743</u>	<u>615,516</u>
TOTAL	<u>\$1,262,850</u>	<u>\$ 134,863</u>	<u>\$1,397,713</u>

The following is a summary of the long-term debt activity as of September 30, 2005:

	<u>09/30/04</u>	<u>Additions</u>	<u>Payments</u>	<u>09/30/05</u>
Notes payable	\$ 278,140	\$ 688,750	\$ 20,588	\$ 946,302
Capital lease obligations	<u>334,117</u>	<u>79,300</u>	<u>96,869</u>	<u>316,548</u>
TOTAL LONG-TERM DEBT	<u>\$ 612,257</u>	<u>\$ 768,050</u>	<u>\$117,457</u>	<u>\$1,262,850</u>

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE M - RISK MANAGEMENT

Northpointe participates as a member in Michigan Municipal Risk Management Authority (Authority). The Authority is a municipal self-insurance entity operating pursuant to the State of Michigan Public Act 138 of 1982. The purpose of the Authority is to administer a risk management fund, which provides members with loss protection for general and auto liability, motor vehicle physical damage, and property.

The Authority has entered into reinsurance agreements providing for loss coverage in excess of the amounts to be retained by the Authority and individual members.

In the event a reinsurance company does not meet its obligation to the Authority, responsibility for payment of any unreimbursed claims will be that of the Authority Reinsurance Fund. The Authority has retained certain levels of risk rather than obtaining coverage through reinsurance agreements. The Authority established the Authority Reinsurance Fund in order to participate in the reinsurance agreements. Individual members are provided the same level of coverage previously afforded through a combination of the reinsurance agreements and the Reinsurance Fund. In addition, the Authority purchases insurance for certain risks not covered by the reinsurance agreements. At September 30, 2005, Northpointe has no outstanding claims which exceed the plan's limits and there has been no significant reduction in insurance coverage over the past three years.

NOTE N - HEALTH INSURANCE

Northpointe maintains a self-insurance program for health insurance that began on January 1, 2005. This program is administered by a third-party administrator. Current year claims amounted to \$680,191 and were expensed during the year as they were incurred. No liability is recorded as of September 30, 2005, as certain stop-loss provisions were met. The balance of any claims over the stop-loss provisions were considered to be immaterial.

NOTE O - CONCENTRATIONS

Northpointe derives a significant portion of their total support and revenues from the Michigan Department of Community Health (MDCH) through Medicaid and Public Act 258 funding. Revenue and support recognized for the year ended September 30, 2005, provided by MDCH represented approximately 92 percent of Northpointe's total support and revenue.

NORTHPOINTE BEHAVIORAL HEALTHCARE SYSTEMS

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE P - CONTINGENT LIABILITIES

Northpointe has received significant financial assistance from state and federal agencies. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in grant agreements or contracts and are subject to audit by the funding agency. Any disallowed claims resulting from such audits could become a liability of Northpointe. As of the date of this report management was unaware of any disallowed claims.

REQUIRED SUPPLEMENTARY INFORMATION

NORTHPOINTE BEHAVIORAL HEALTHCARE SYSTEMS

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE, BUDGET AND ACTUAL - GENERAL FUND**

For the year ended September 30, 2005

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES:				
Federal sources	\$ 173,236	\$ 173,236	\$ 170,156	\$ (3,080)
State sources	3,235,680	3,235,680	2,919,338	(316,342)
Medicaid	10,953,196	10,953,196	10,444,765	(508,431)
Medicare	45,000	45,000	101,681	56,681
Local	247,726	247,726	248,351	625
Charges for services	659,900	659,900	662,200	2,300
Other revenues	45,000	45,000	122,831	77,831
Proceeds from borrowing	-	-	768,050	768,050
TOTAL REVENUE	15,359,738	15,359,738	15,437,372	77,634
EXPENDITURES:				
Current:				
Salaries and related expenses	8,358,233	8,358,233	8,514,896	(156,663)
Board related expenses	33,720	33,720	27,956	5,764
Office supplies and postage	58,880	58,880	50,284	8,596
Operating and program supplies	280,080	280,080	296,408	(16,328)
Client medical	50,000	50,000	59,797	(9,797)
Pharmacy	33,600	33,600	39,581	(5,981)
Dental	15,000	15,000	7,096	7,904
MIS Support	395,604	395,604	202,173	193,431
Staff medical	14,380	14,380	16,461	(2,081)
Local match MRS Grant	11,421	11,421	11,421	-
Contract employee services	343,360	343,360	229,759	113,601
Legal, professional, accounting	32,000	32,000	24,515	7,485
The Source	8,000	8,000	6,184	1,816
Local in-patient	580,467	580,467	499,830	80,637
County in-patient	38,500	38,500	30,323	8,177
State in-patient	218,400	218,400	182,748	35,652
Home services	1,575,787	1,575,787	1,542,192	33,595
Community mental health	5,280	5,280	1,299	3,981
Pathways	58,200	58,200	37,671	20,529
Trico	443,800	443,800	472,365	(28,565)
Goodwill	400,000	400,000	310,624	89,376
DICSA	61,992	61,992	61,992	-
Crisis services	22,575	22,575	22,573	2
Respite	102,000	102,000	103,156	(1,156)
Telephone	112,740	112,740	118,480	(5,740)
Utilities	114,730	114,730	123,183	(8,453)
Staff development and travel	175,160	175,160	136,130	39,030
Vehicle operations/maintenance	228,265	228,265	186,878	41,387
Vehicle leases/purchases	72,492	72,492	-	72,492
Advertising	26,760	26,760	31,512	(4,752)
Recruitment	15,060	15,060	25,033	(9,973)
Liability insurance	167,322	167,322	151,535	15,787
Repairs and maintenance	191,100	191,100	183,711	7,389
Rent - facilities and equipment	370,701	370,701	328,633	42,068
Dues and publications	39,744	39,744	-	39,744
Pathways PHP	192,328	192,328	192,326	2
Miscellaneous	-	-	35,699	(35,699)
Capital outlay	40,900	40,900	663,769	(622,869)

NORTHPOINTE BEHAVIORAL HEALTHCARE SYSTEMS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE, BUDGET AND ACTUAL - GENERAL FUND

For the year ended September 30, 2005

	<u>Budgeted Amounts</u>			<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
Debt Service:				
Principal	\$ -	\$ -	\$ 117,457	\$ (117,457)
Interest	<u>13,610</u>	<u>13,610</u>	<u>45,202</u>	<u>(31,592)</u>
TOTAL EXPENDITURES	<u>14,902,191</u>	<u>14,902,191</u>	<u>15,090,852</u>	<u>(188,661)</u>
Change in net assets	457,547	457,547	346,520	(111,027)
Net assets, beginning of year	<u>-</u>	<u>-</u>	<u>992,136</u>	<u>992,136</u>
NET ASSETS, END OF YEAR	<u>\$ 457,547</u>	<u>\$ 457,547</u>	<u>\$ 1,338,656</u>	<u>\$ 881,109</u>

OTHER INFORMATION



ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal
Raymond B. LaMarche, CPA, Principal
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA
Lindsay J. Behrend, CPA
Christina A. Smigowski, CPA

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Northpointe Behavioral
Healthcare Systems
Kingsford, Michigan

We have audited the financial statements of the Northpointe Behavioral Healthcare Systems as of and for the year ended September 30, 2005 and have issued our report thereon dated February 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Northpointe's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control (over financial reporting) that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northpointe's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant

Board of Directors
Northpointe Behavioral
Healthcare systems
Kingsford, Michigan

agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Andersson, Tackman & Company P.L.C.

Certified Public Accountants

February 3, 2006



ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal
Raymond B. LaMarche, CPA, Principal
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA
Lindsay J. Behrend, CPA
Christina A. Smigowski, CPA

REPORT TO MANAGEMENT

To the Board of Directors
Northpointe Behavioral Healthcare Systems
Kingsford, MI 49802

We have audited the financial statements of the Northpointe Behavioral Healthcare Systems for the year ended September 30, 2005, and have issued our reports thereon dated February 3, 2006. Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility under U. S. Generally Accepted Auditing Standards

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

In planning and performing our audit, we considered Northpointe's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether Northpointe's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

As part of our audit, we considered the internal control structure of Northpointe. Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for safeguarding assets and for maintaining the structure of the internal control system to help assure the proper recording of transactions. Our consideration of the system of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

Significant Accounting Policies

Management has the responsibility for selection of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by Northpointe are described in Note A of the financial statements. No new accounting policies were adopted and the application of existing policies were not changed during the fiscal year. We noted no transactions entered into by Northpointe during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Management Judgments and Accounting Estimates

Some accounting estimates are utilized in financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate would involve the useful lives of fixed assets. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the estimates.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Our audit adjustments, individually and in the aggregate, do not have a significant effect on the financial reporting process.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Northpointe or a determination of the type of auditor's opinion to be expressed on those statements, our professional

Board of Directors
Northpointe Behavioral Healthcare Systems

standards require the consulting accountant to advise us as to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Northpointe's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

In planning and performing our audit of the financial statements of Northpointe, for the year ended September 30, 2005, we considered Northpointe's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated February 3, 2006, on the financial statements of Northpointe.

We have already discussed many of these comments and suggestions with various Northpointe personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This information is intended solely for the use of the Board, management and applicable State and Federal grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company P.C.
Certified Public Accountants

February 3, 2006

NORTHPOINTE BEHAVIORAL HEALTHCARE SYSTEMS

COMMENTS AND RECOMMENDATIONS

September 30, 2005

HEALTH SELF-INSURANCE PROGRAM

During the year Northpointe moved from purchased health insurance to a self-funded health insurance program. At September 30, 2005, no provision for a liability was calculated to estimate health insurance claims arising prior to year-end but not yet filed as a claim. We recommend, as time passes and claim experience is gained, that a provision for this liability be calculated for the year-end financial report in the future.